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SUBJECT: FORECAST FOR REFORM IN ARMENIA: MOSTLY CLOUDY

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SUMMARY

1. (C) Recent public comments by PM Sargsian suggest that he understands his "legitimacy problem" and views a return to reform as the best way to overcome it. Serious questions remain, however, about Sargsian's understanding of basic concepts of democratization and his willingness to take on the entrenched, corrupt interests that make up his political base. An oligarch close to Sargsian insists that the PM is prepared to make "big changes," but then cites Putin and Brezhnev as successful role models. An analyst close to the PM says Sargsian will choose the reform path "because he will have no other choice." But few we have spoken to believe the PM, either by background or temperament, has a natural inclination to reform. His leading role in improving Armenia's relations with NATO and developing the policy of "complementarity" with the West provide grounds for hope. But internal reforms will likely prove much more difficult and entail a higher degree of risk. With popular frustration soaring following the election,, its aftermath, and the violence of March 1-2, a more authoritarian approach may be a more likely outcome. End Summary.

SARGSIAN'S "LEGITIMACY PROBLEM"

2. (C) Despite the recent coalition agreement reached by four parties that collectively won (according to the official count) over 70 percent of the vote on February 19, observers from across the political spectrum agree that PM Sargsian will begin his tenure as president facing a crisis of legitimacy. Actions taken by the authorities and Sargsian supporters before, during, and after the election, culminating in the violence of March 1-2, have disappointed and frustrated most Armenians, many of whom have drifted toward defiant opposition leader Levon Ter-Petrossian (LTP) - for lack of any other outlet for their disgust. Sargsian has seemingly recognized his problem, and has attempted to distance himself from those events while promising that change is on the way. The PM recently told the media that "change is coming even though it will be painful for some," an apparent hint that he intends to reduce the influence of the widely-disliked group of oligarchs that control most of Armenia's wealth.

13. (C) The question of the moment for Armenians is whether the PM can or will make good on his pledge to take Armenia in a new direction. Judging by his background and record as a public figure, there is some basis for cautious optimism but plenty of room for doubt. As Armenia's Defense Minister, Sargsian was instrumental in expanding cooperation with NATO, one of the signature elements of Armenia's "complementarity" policy, through which Armenia sought to balance its touchstone relationship with Russia with increased ties to the West. Significantly, however, these policies never ran into heavy opposition, foreign or domestic. So success was measured in incremental implementation of steps that were not opposed by the Russians or by other significant players in Armenia. In his short stint as Prime Minister, Sargsian has essentially continued the policies of his predecessor, including a gradual economic liberalization, while deferring to President Kocharian on questions of foreign policy and internal political reform. Significantly, however, he has failed to move against Armenia's rampant corruption problem, and has not been heard from on the rule of law issues that are at the heart of Armenians' grievances against the regime.

YES TO REFORM -- LIKE PUTIN AND BREZHNEV!

14. (C) Mikhail Bagdassarov, a leading (and, we believe, relatively clean) oligarch close to Sargsian, recently recounted for the Charge how the PM had called all of the oligarchs together before leaving for Moscow on March 24. His message, according to Baghdassarov, was clear -- "there is going to be change, and some of you are not going to like it." Baghdassarov argued that the PM is "fully committed" to changing course, and is willing to take on powerful interests that stand in the way. When pressed on the kind of reform the PM had in mind, however, Baghdassarov was less clear.

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When asked what kind of leadership might Sargsian bring to the Presidency, he described Russian President Putin and former Communist leader Leonid Brezhnev as "the most successful leaders" of recent times. According to Baghdassarov, Putin and Brezhnev "succeeded" because they "understood the need to bring in their own teams." Khrushchev and Gorbachev, by contrast, "thought they were so smart that they could succeed with anybody." Serzh Sargsian, he said "understands the importance of the team."

15. (C) In fact, most of the speculation surrounding the Sargsian Presidency is focused more on who will be on the team rather than what that team might try to do. Senior PM staffers are adamant about the PM's desire for reform, but they are unable to articulate what that reform might look like. To the extent that they offer specifics, they tend to focus more on economic policy and innovation rather than on democratization and expanding freedoms. As PM Sargsian has told us repeatedly in the past, "you can't have political reform unless you have a strong economy." Baghdassarov also stressed economic changes as the PM's likely priority, and seemed non-plussed when asked about a possible reversal of politically motivated detentions or expansion of media freedom. Even in the economic field, some question whether the PM has a real vision of where he wants Armenia to go. "He keeps talking about second-generation reforms," a senior World Bank official told us, "but when you ask him what that means, he has a hard time answering."

SWEEPING REFORMS...BUT NO SUDDEN CHANGES?

16. (C) Leaving aside the content of reform, there are conflicting signals on the depth and pace of change that may take place after the inauguration. Mikhail Minasyan, senior advisor (and son-in-law) to the PM, told CDA on April 1 that

PM Sargsian had commented earlier that day that changes would be so sweeping that "even you will be shocked." But when describing Sargsian's decision to keep Kocharian's chief of staff (and anti-reform attack dog) Armen Gevorgian on in that position, Minasyan cautioned that "the Prime Minister doesn't like sudden change." Tevan Poghosyan, an analyst and fellow-Karabakhi who knows the PM well, has predicted that Sargsian will be bold in his reforms "because he has no other choice." That view is echoed by Armenians of various political leanings. Opposition supporters contend that if the PM resists change (as they expect), the new administration will not survive long. Somewhat surprisingly, even many who are more sympathetic to the authorities privately agree. Salpi Ghazarian, a top aide to FM Oskanian, recently expressed concern to the Charge that if reform doesn't come quickly, the PM could be in trouble. "This is not a five-year process," she argued.

17. (C) Polchief spoke with Prosperous Armenia parliamentarian (and former Kocharian aide) Avet Adonts March 31 and Republican MP Samvel Nikoyan April 1, seeking clues to the new administration's program. Neither man could offer specifics on what policy initiatives were planned, as both said that the coalition remains focused on who will be in the new cabinet. Both men, who are each relatively liberal thinkers within the ruling establishment, said that there will be a serious political reform agenda. They highlighted the deeply corrupt and politically powerful Customs Service as an early target for overhaul. (Comment: This would be a welcome gesture, and indeed one we had privately floated to PM staffers weeks ago. End comment.) Both Adonts and Nikoyan also predicted that public television would have a shake-up aimed at more balanced political programming -- another welcome step, if realized, that we have urged on the GOAM. Adonts and Nikoyan asserted that though political reform would be genuine and widespread, they expect it to start slowly and proceed incrementally. As Adonts put it, "Armenia is no country for shock therapy," though he quickly added "except maybe for Customs."

AND WHAT ABOUT THE GOONS?

18. (C) Virtually everyone agrees that the biggest obstacle to reform, if indeed the PM is inclined in that direction, is the sense of entitlement enjoyed by the many unsavory characters who have helped Sargsian in his longtime quest for the Presidency (and indeed, throughout the Kocharian Presidency, during which Sargsian was the preeminent partner). Although the goons who terrorized voters, stuffed

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ballot boxes, and intimidated pollworkers may not have been asked to do so by the PM, they thought they were doing his bidding and will expect to be rewarded for their efforts. For all of his optimism about Sargsian as a reformer, Poghosyan acknowledges that "he will need to find a way to ease those people out and build a new set of elites." This will not be easy, as the election day goon squads report to some of the richest and most powerful men in Armenia under the Kocharian-Sargsian regime. Even Baghdassarov, the PM's confidante, admits he is "troubled" by some of the advisors who have become close to the Prime Minister in recent years. "I used to see him all the time," he complained, "but now I'm lucky if we can have dinner together once a month. The Prime Minister needs to be careful."

19. (C) Senior Armenian revolutionary Federation (Dashnaktsutyun) party politician and recent presidential candidate Vahan Hovanissian -- whose daughter is married to Sargsian's nephew -- told polchief of his own recommendation to the PM: Sargsian should turn on the pro-government thugs with a profession of rage that they failed to deliver a 70 percent win for him in the election despite all the money, patronage, and resources the PM had provided them to ensure

his victory. Only through this justification -- a reason that Hovanissian thought the goons themselves would accept as "legitimate" -- could Sargsian free himself from such men's entangling embrace. "Otherwise, he will be their prisoner for the next five years." Adonts and Nikoyan acknowledged the thug problem to polchief, and assured that unsavory and notoriously corrupt figures will be excluded from the new government. They grimaced helplessly, however, at the idea that such figures should be prosecuted for their flagrant misdeeds during the election period.

DEMOCRACY AND FREEDOM -- FOREIGN CONCEPTS?

¶10. (C) Yet another factor working against serious reform is that the Prime Minister, through no fault of his own, may not have a conceptual framework for what a free, democratic society really looks like. His recent expression of paranoia about alleged embassy support for the opposition (reftel) and his clumsy efforts to manipulate press reporting on official meetings illustrate the lingering Soviet world-view that informs the PM's statements and actions. When asked to comment about the bombing of an opposition newspaper office during the presidential campaign, PM Sargsian answered snidely "I don't even read that newspaper." His useful initiative to take questions from the public, through moderators reading the questions aloud, was undermined when the PM became visibly testy by the end of the two-hour live program over what he clearly considered the temerity of some of the questions. Despite his efforts to cast himself as a reformer, Sargsian excluded all opposition media from the press conference he held last week. More troubling is that few if any from the PM's inner circle have the background or experience to counter his authoritarian instincts. There are signs, though, that at some level Sargsian understands he needs help -- during the election campaign he turned to PR giant Burston-Marsteller to advise him on dealing with the foreign media. A similar infusion of talent in the area of democratic reform would raise confidence that the PM, even if well-intentioned, will have the capacity to produce real change.

COMMENT

¶11. (C) Predicting the trajectory of the Sargsian presidency is difficult. So far we have little to go on, apart from the cautious, nuanced statements over the past few weeks that stand in welcome contrast to Kocharian's arrogant bombast. The challenges he faces as he assumes the office represent a significant threat to his political survival. Surmounting them will require political -- and even physical -- courage. A re-energized opposition will almost certainly try to goad Sargsian into taking more authoritarian measures, thereby increasing public anger and the likelihood of a street revolution. To head off this possibility, the PM will need to start fast and be bold. Sargsian's trademark caution will not serve him well under these circumstances. There are many reasons -- temperament, upbringing, inexperience -- to expect the PM to fall short, and to choose a dangerous, authoritarian path. The best course we can take to avoid such an outcome is to tell him the hard truths --

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half-measures won't cut it, and mouthing platitudes about change won't ease the crisis. By being candid with the PM, we give him his best chance for success. End Comment.

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